



State of Arizona
Department of Education

CN# 19-12
USDA SP# 39-2011-Revised

MEMORANDUM

TO: Sponsors of the National School Lunch Program

FROM: Mary Szafranski, Deputy Associate Superintendent
Arizona Department of Education, Health and Nutrition Services

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Arizona Department of Education, School Nutrition Programs

DATE: November 17, 2011

SUBJECT: Child Nutrition Reauthorization 2010: Guidance on Revenue from Non-program Foods - Revised

Original Signed

This memorandum, regarding the interim rule relating to sections 205 and 206 of the Healthy, Hunger-Free Kids Act (Public Law 111-296), provides updated questions and answers (Q&As) to the Guidance on Revenue from Non-program Foods memorandum CN# 06-12. This guidance establishes requirements for School Food Authorities (SFAs) concerning revenue from foods sold outside of reimbursable meals when those foods are purchased with school food service account funds.

***New Q&As are in RED**

Q1. What is the purpose of the revenue from non-program foods provisions?

To ensure that revenues from the sales of non-program foods generate at least the same proportion of SFA revenues as they contribute to SFA food costs.

Q2. What is considered a non-program food?

For the purposes of this provision a non-program food is a food (including beverages) that is sold in a participating school other than a reimbursable meal and is purchased using funds from the school food service account of the school.

These include but are not limited to:

- A la carte items sold in competition with school meals;
- Adult meals;
- Items purchased for fund raisers, vending machines, school stores, etc.; and



- Items purchased for catering and vended meals.

Q3. What is considered revenue?

Revenue is all money that is provided to the nonprofit school food service account. This includes but is not limited to:

- Federal reimbursement;
- State or local funds, such as per meal subsidies and state revenue matching funds;
- Children's payments for reimbursable meals and a la carte sales;
- Payments for items purchased for fund raisers, vending machines, etc; and
- Income from catering, adult meals, vended meals, etc.

Q4. How does a SFA determine the "cost to obtain" a non-program food?

The cost to obtain a non-program food includes only the cost of the food. If a non-program food is made from scratch, the SFA would determine the price of ingredients to calculate the food cost. The SFA should not include labor or other costs in this calculation.

This same principle applies to calculating program food costs for the purpose of this provision.

Q5. How does a SFA determine whether it is in compliance with the Revenue from Non-program Foods Sold in Schools provision?

The SFA would determine its total food cost and the proportion of that total that is non-program food. The SFA would then calculate the share of total revenue generated from non-program food sales over the same period. If the second figure is at least as great as the first figure, then the SFA is generating sufficient revenue from non-program food sales.

The following example shows how this provision is applied:

An SFA has the following characteristics:

- Total Costs: \$1,000,000
- Total Food Costs: \$500,000
 - o Cost of food for reimbursable meals: \$450,000
 - o Cost of non-program food: \$50,000
- Total Revenue: \$1,000,000

Revenue Requirement:

- Minimum proportion of revenue required from the sale of non-program foods:
 $\$50,000 / \$500,000 = 10\%$
- Minimum dollar revenue required from the sale of non-program foods:
 $10\% \times \$1,000,000 = \$100,000$

If this SFA earns \$100,000 in revenue from non-program food sales, they are in compliance.

- The attached Excel-based tool with user instructions may be used to determine the amount of non-food program revenue required to be in compliance with Section 206.

Q6. Can an SFA price some non-program foods lower than their actual cost?

Yes, as long as the total revenue generated from all non-program food sales meets the proportional requirement described above.

Q7. What period of time should be included in the calculations?

The SFA uses the revenue and costs for a school year to calculate revenue targets. For SY 2011-2012, the revenue and costs for SY 2010-2011 are used. In cases where the prior year is not reflective of the typical school year (e.g., a school opens in the middle of the school year or is closed for a portion of the year due to a disaster), the SFA could use their Fiscal Year, a representative month multiplied by the number of months in the school year or another method as approved by the Arizona Department of Education (ADE).

Q8. How are SFAs to implement this requirement for SY 2011-2012?

All SFAs must do the revenue calculations. If the proportion of revenue is equal to or greater than the proportion of the food costs, no additional action is needed. If not, the SFA must review the prices charged for non-program foods and make necessary adjustments. If there are extenuating circumstances which prevent immediate corrective action, such as an inability to obtain necessary School Board approvals, these factors should be discussed with ADE and an appropriate corrective action plan must be developed.

Q9. How are SFAs to track non-program food sales and revenues?

SFAs that do not already have systems in place to track non-program food sales and revenues should work with ADE to develop plans to improve their recordkeeping systems.

Q10. What are some resources for SFAs as they work to implement section 206 and determine how to price non-program foods?

SFAs may want to consult guidance from the National Food Service Management Institute (NFSMI) on non-program food pricing and school food service account management.

NFSMI Financial Management Information:

<http://www.nfsmi.org/documentlibraryfiles/PDF/20080225031916.pdf>

Please note however that SFAs should ensure that they are in compliance with the requirements of section 206 when using any outside resource. ADE plans to issue more guidance for SFAs on this issue as it is received.

Please contact your School Nutrition Programs Specialist at (602) 542-8700 if you have any questions.

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